

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
(317) 232-9855

FISCAL IMPACT STATEMENT

LS 8125

BILL NUMBER: SB 535

DATE PREPARED: Jan 18, 2001

BILL AMENDED:

SUBJECT: Research Expense Credit.

FISCAL ANALYST: Diane Powers

PHONE NUMBER: 232-9853

FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
FEDERAL

IMPACT: State

Summary of Legislation: This bill increases the Research Expense Credit percentage from 5% to 20%.

Effective Date: January 1, 2002.

Explanation of State Expenditures: There will be some minimal expenses for the Department of State Revenue to change tax forms, instructions, and computer programs which can be absorbed in its current budget.

Explanation of State Revenues: *The increase in the tax credit to 20% could increase the research expense credits taken in the range of \$33 M to \$47 M in FY 2003.*

Over the past six years, this tax credit has ranged from \$7 M to \$15 M. In FY 96 approximately \$9.2 M of tax credits were claimed, with \$15.3 M in FY 97 and \$11.2 M in FY 98. It is difficult to estimate the exact impact of expanding this tax credit since it is dependent on the amount of research expenses individual taxpayers make during the year. With additional incentives created for research and development activity based in the state of Indiana, the revenue loss from this credit could increase by an indeterminable amount. The credit provides \$200,000 for each \$1 M in new research expenses. The substantial increase in the tax credit could significantly expand the utility of this tax credit in 2002. The tax credit is currently set to expire December 31, 2002, so this bill will only be effective for one tax year.

Increased expenditures on research activities could also generate additional individual income and sales tax revenue if these expenses are used to hire additional employees or purchase related equipment.

The research expense tax credit affects revenue collections deposited in the General Fund and the Property Tax Relief Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: The Department of State Revenue.

Local Agencies Affected:

Information Sources: The Department of State Revenue.